

# Türkiye: Banking Sector Outlook 2Q 2024

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Garanti BBVA Research

## Key messages

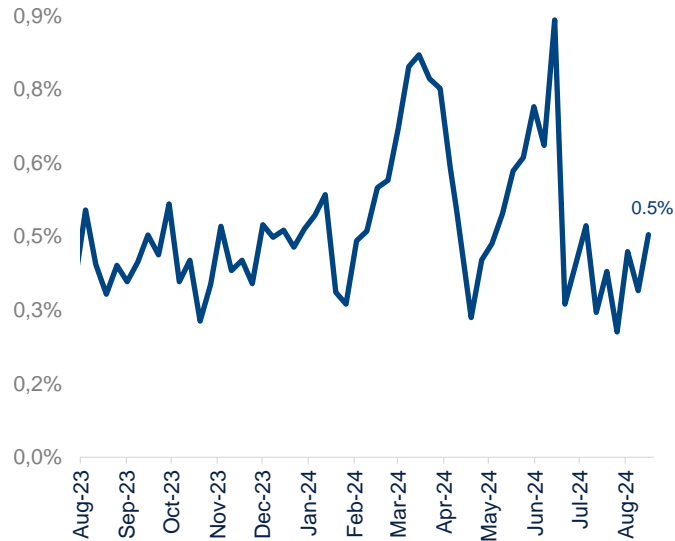
- The slowdown in credit growth started to become more pronounced towards the end of 2Q24. TL and FC credit growth levels came below the regulatory thresholds.
- Macroprudential measures for retail loans and the increase in maximum credit card interest rates led to a clearer deceleration in consumer loans in 2Q24. The pick-up in FC lending in the first quarter of the year reversed with the introduction of the monthly growth limit and the implementation of reserve requirements if the limit is exceeded. However, both supply and demand conditions are still there due to competitive FC rates.
- The decline in FC protected accounts (KKM) continued accompanied by the decrease in FC deposit accounts in 2Q24. The share of TL deposits increased significantly. Yet, the latest August data shows an upward trend in FC deposits, signaling most likely the end of further de-dollarization.
- There is an accelerating NPL trend for retail loans. However, cost of risk (CoR) remains low given the ongoing collections and high amount of provisions.
- The credit risk indicator, the share of Stage 2 and NPLs in gross loans, rose limitedly to 10% in 2Q24 from 9.8% for peer deposit banks, according to our calculations. New NPL formations picked up, too.
- The sector's capital and liquidity buffers are solid in spite of the ongoing profitability pressures due to loan growth caps and high TL funding costs. Return on equity maintains a downward trend. Fees and commission income continues to support profitability in both public and private banks.

01

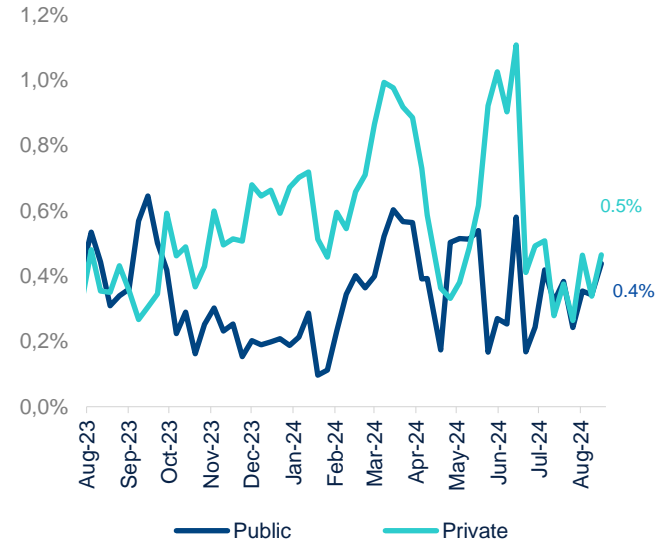
# Turkish Banking Sector: Credit Developments

**With more restrictive monetary tightening showing its impact in 2Q24, credit growth started to decelerate more clearly in both public and private banks.**

**TOTAL CREDIT GROWTH (FX ADJ)**  
4-week average



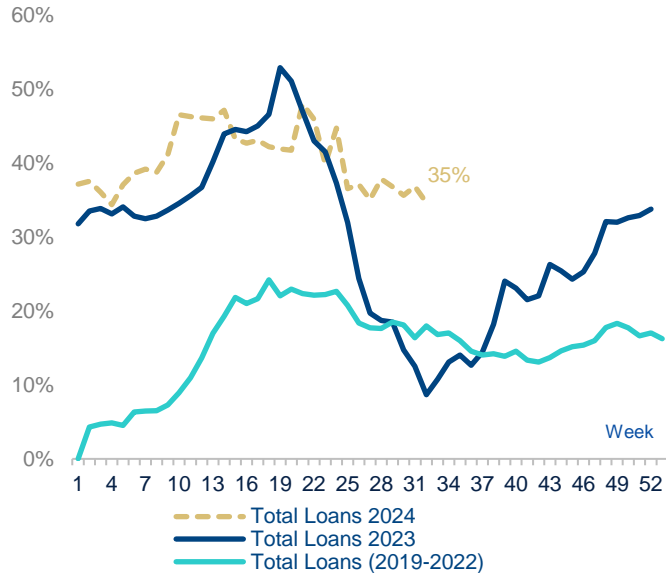
**TOTAL CREDIT GROWTH (FX ADJ)**  
4-week average



# Deceleration is more pronounced in public banks when compared to previous years' averages.

## TOTAL CREDIT GROWTH (FX ADJ)- PRIVATE BANKS

13-week average annualized



## TOTAL CREDIT GROWTH (FX ADJ)- PUBLIC BANKS

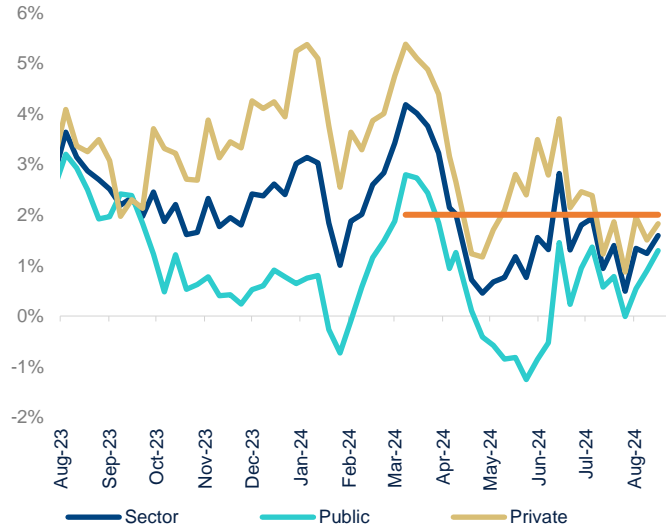
13-week average annualized



# The monthly growth limit introduced for FC loans in May24 (2% cap has been revised to 1.5% as of July 22nd) stopped the strong revival in FC credits.

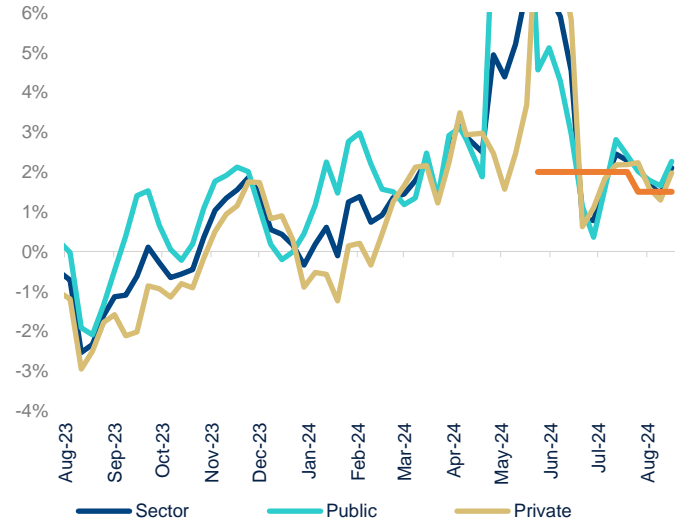
## TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

4 week cumulative, deposit banks



## FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

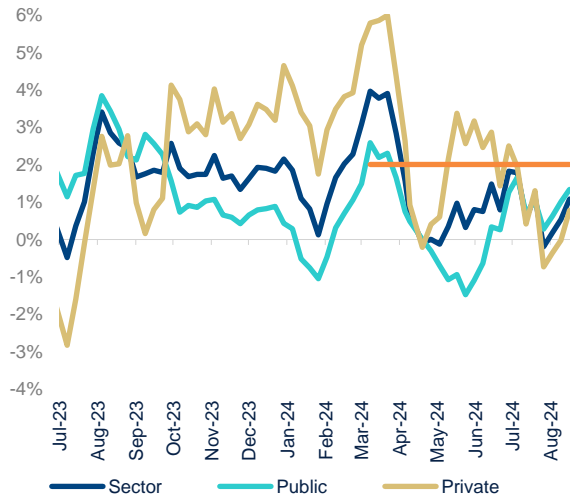
4 week cumulative, deposit banks



# Private banks recently tend to grow in TL non-SME lending, while public banks grow in mostly FC lending to SMEs.

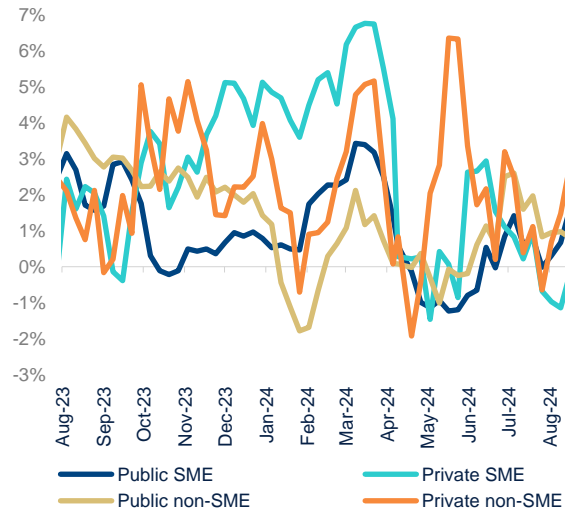
## TL COMMERCIAL CREDIT GROWTH

4 week cumulative, deposit banks



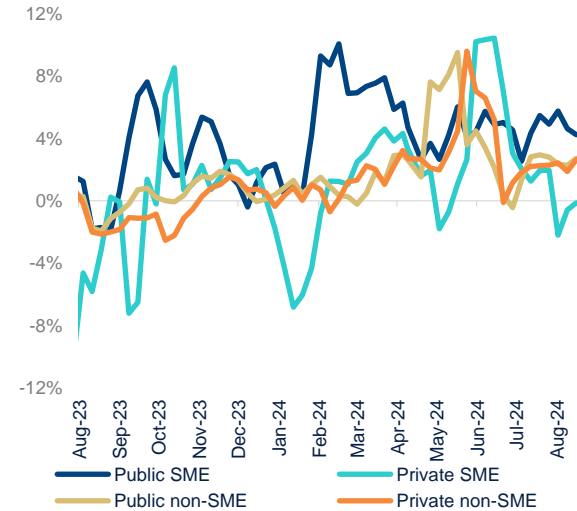
## TL COMMERCIAL CREDITS GROWTH

4 week cumulative



## FC COMMERCIAL CREDITS GROWTH

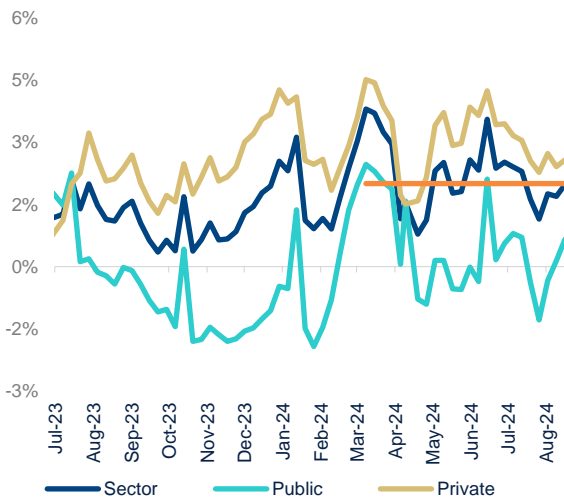
4 week cumulative



# Retail lending being stronger than commercial lending also decelerates, card spending comes below monthly inflation.

## CONSUMER\* CREDIT GROWTH

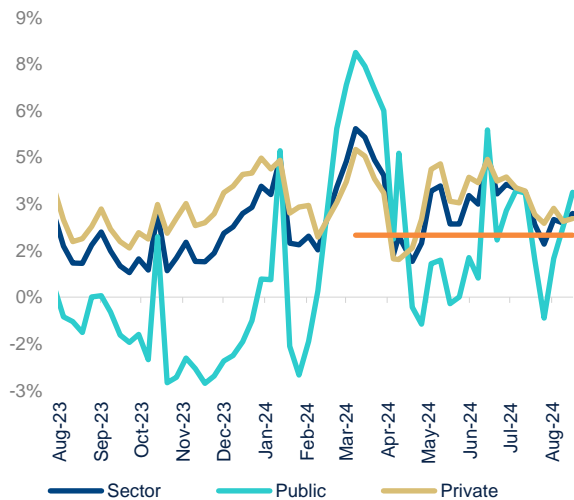
4 week cumulative, deposit banks



\* housing, auto, general purpose loans (GPL)

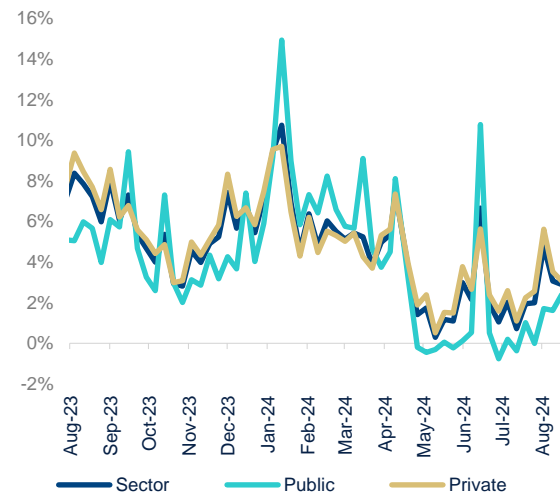
## GENERAL PURPOSE LOANS

4 week cumulative, deposit banks



## RETAIL CREDIT CARDS SPENDING GROWTH

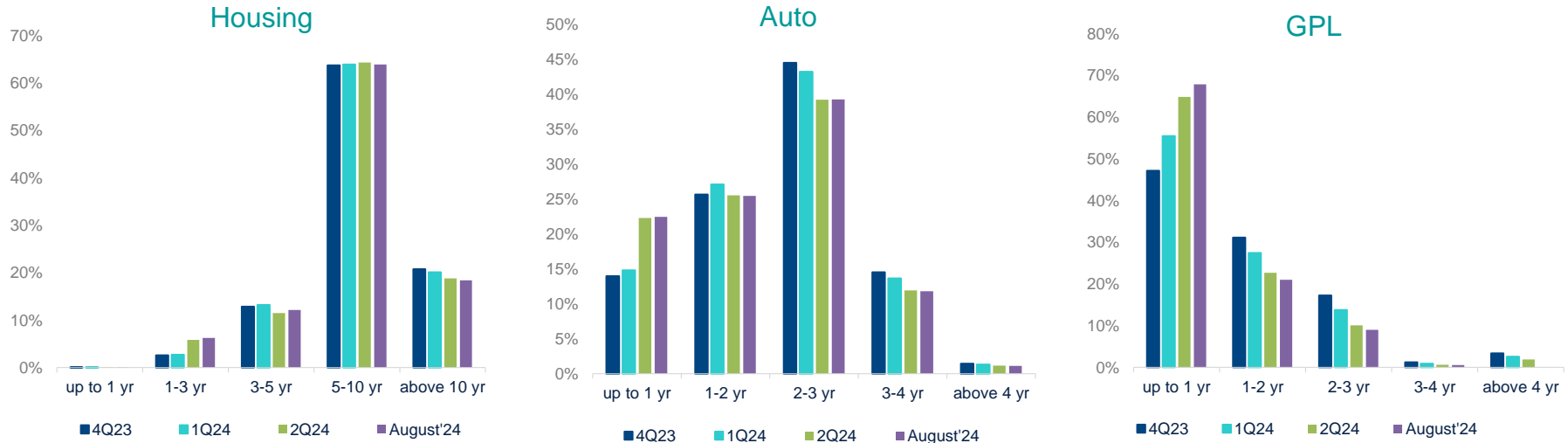
4 week cumulative, deposit banks





Following the regulations, the share of general purpose loans (GPL) concentrated on up to 1 year maturity continues to increase.

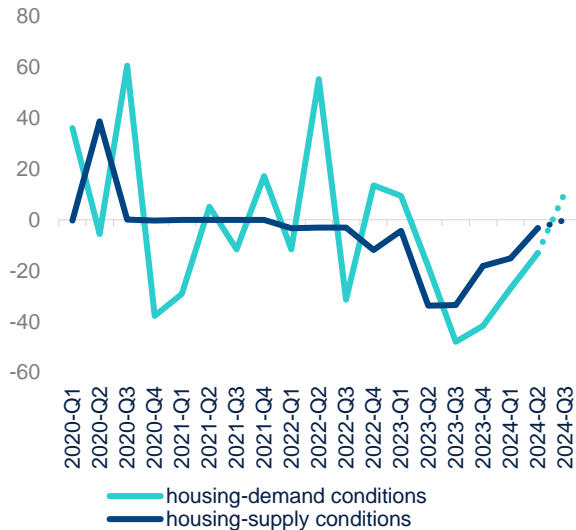
### CONSUMER LOANS BY ORIGINAL MATURITY share in total



# According to the CBRT Lending Survey, tightening in credit standards will soften in 3Q24 together with increasing demand in housing and GPL loans.

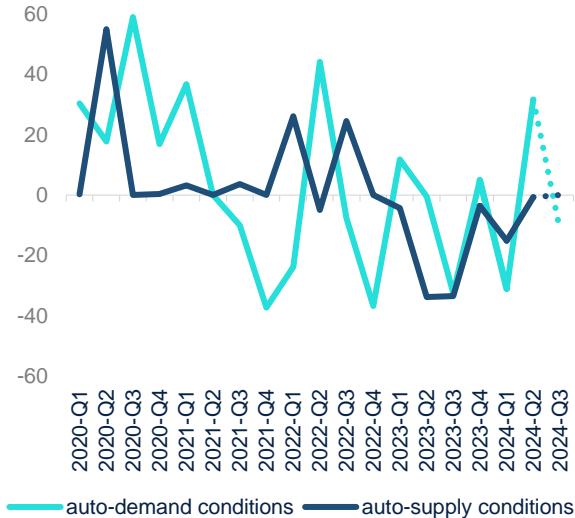
## CREDIT CONDITIONS: HOUSING

Net balance



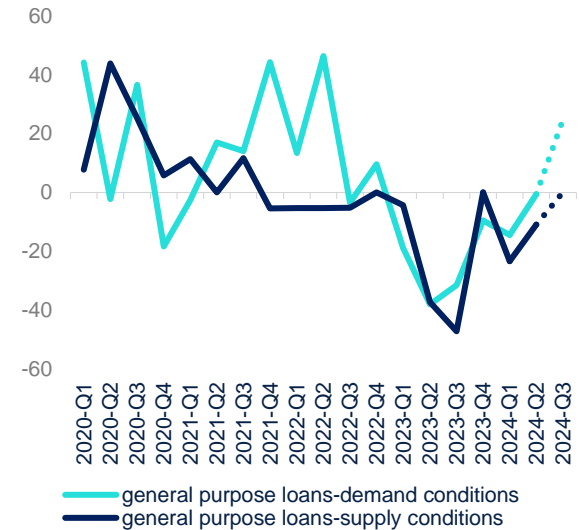
## CREDIT CONDITIONS: AUTO

Net balance



## CREDIT CONDITIONS: GPL

Net balance

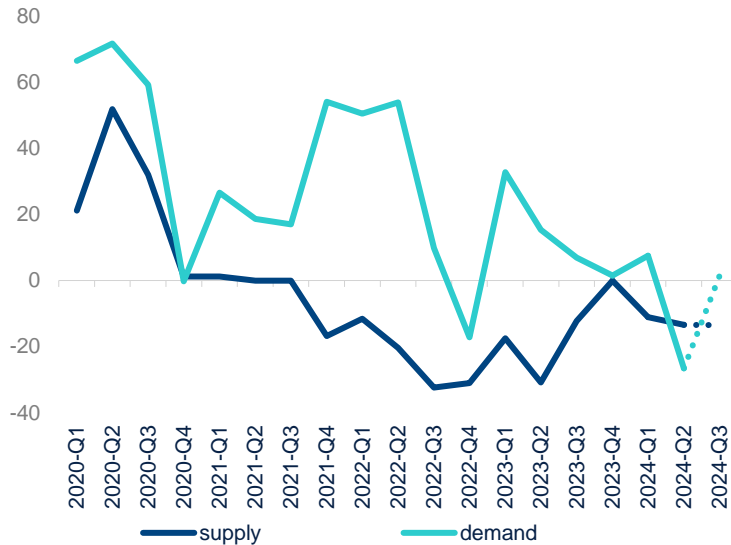


\* >0 Easing; <0 Tightening

# Tightening in credit supply for commercial credits is expected to continue in 3Q24 however demand is expect to gain some revival.

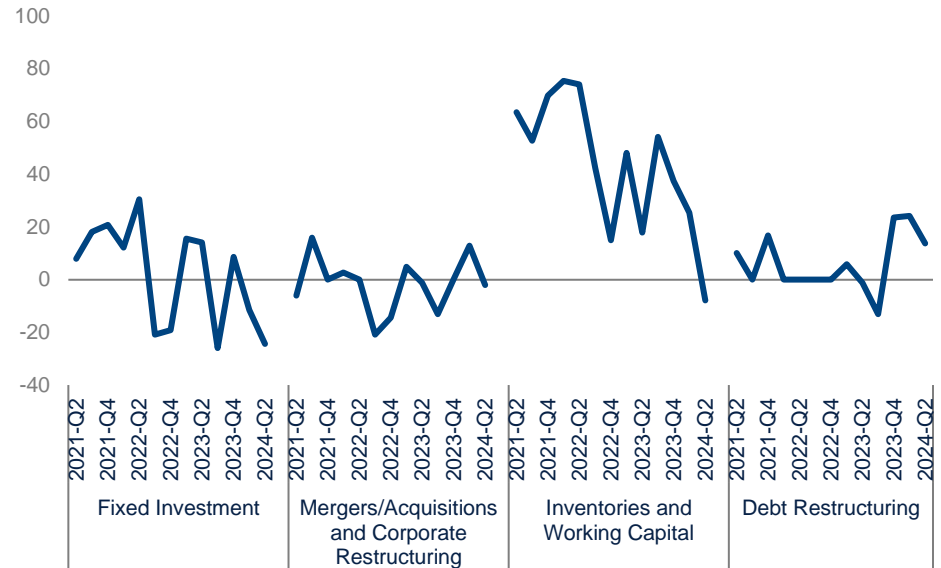
## CREDIT CONDITIONS: COMMERCIAL

Net balance



## FINANCING NEEDS OF THE REAL SECTOR FOR DIFFERENT PURPOSES

Positive= increase in demand, Negative=Decrease in demand

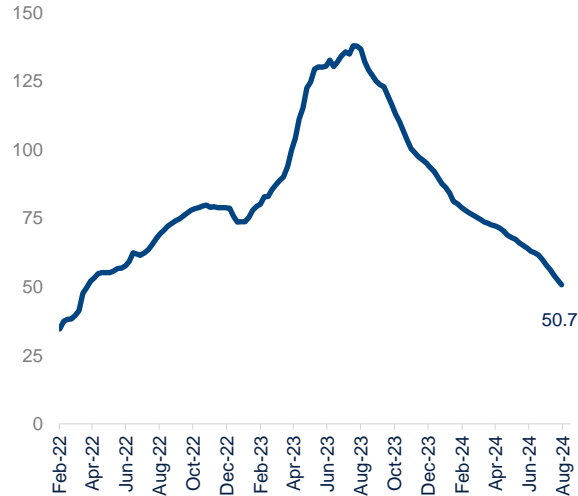


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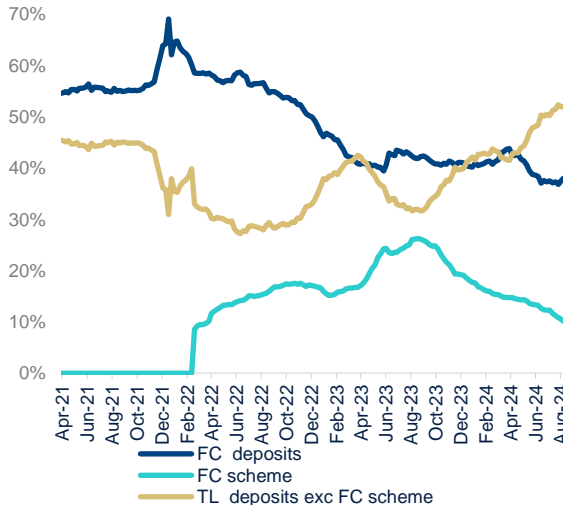
# Turkish Banking Sector: Liquidity

The decline in KKM accounts continues with recent heavy maturities. Since room for further dedollarization disappears, exit from KKM maturities will likely result in an increase in FC deposits going forward, as seen in August

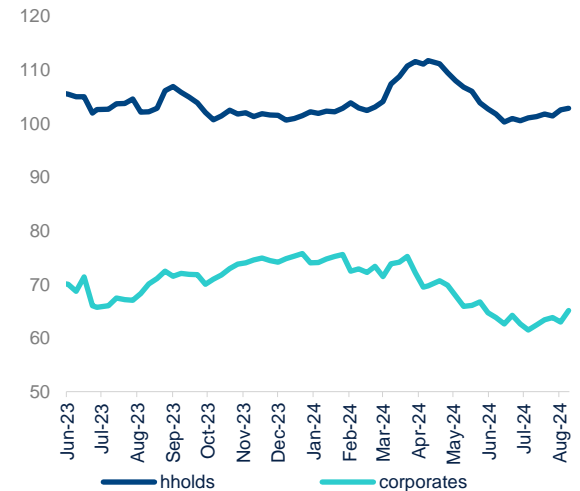
**SIZE OF FC PROTECTED SCHEME**  
in \$bn, adjusted by 13-week USDTRY avg



**DISTRIBUTION AMONG DEPOSITS**  
% share in total



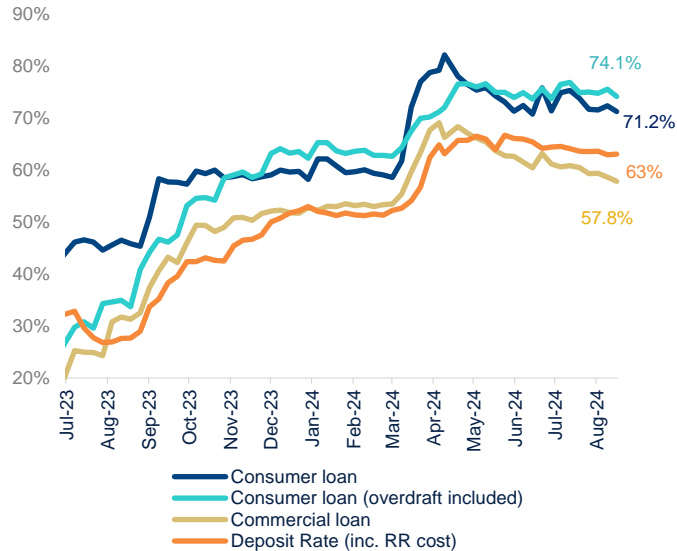
**FC DEPOSITS OF RESIDENTS**  
bn USD



# Interest rates for consumer loans remain above the deposit costs whereas TL commercial credit rates move downward led by weak demand

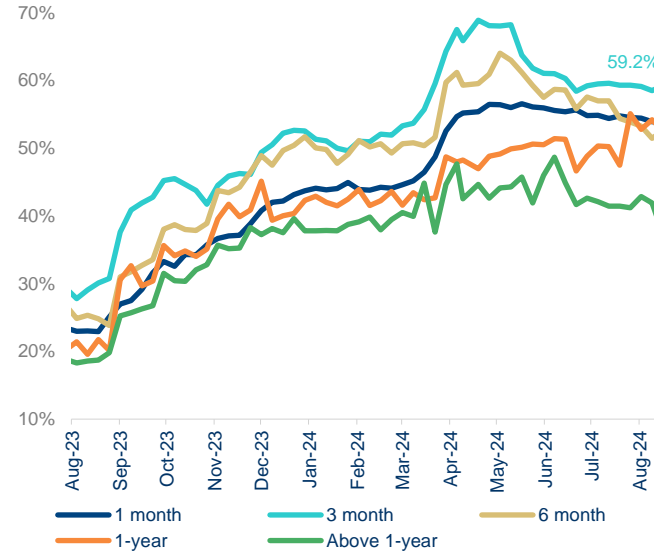
## CONSUMER & TL COMMERCIAL RATES

%, flow, sector



## TL DEPOSIT INTEREST RATES

%, flow, sector, without RR cost



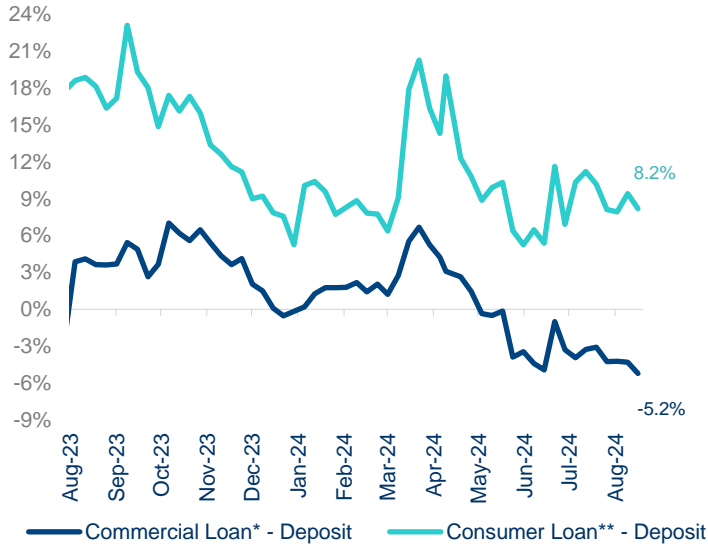
Reserve requirement ratios for TL deposits have been increased from 8% to 12% for short-term and from 0% to 8% for long-term TL deposits. Also, it has been raised from 25% to 33% for short-term and from 10% to 22% for long-term FX-protected deposits

Source: CBRT & Garanti BBVA Research

**Spreads are negative on the commercial segment. The ongoing decline in KKM stock will eventually support the RR costs of banks which will also have a positive impact on the spreads.**

### TL INTEREST RATE SPREAD

% , including RR cost

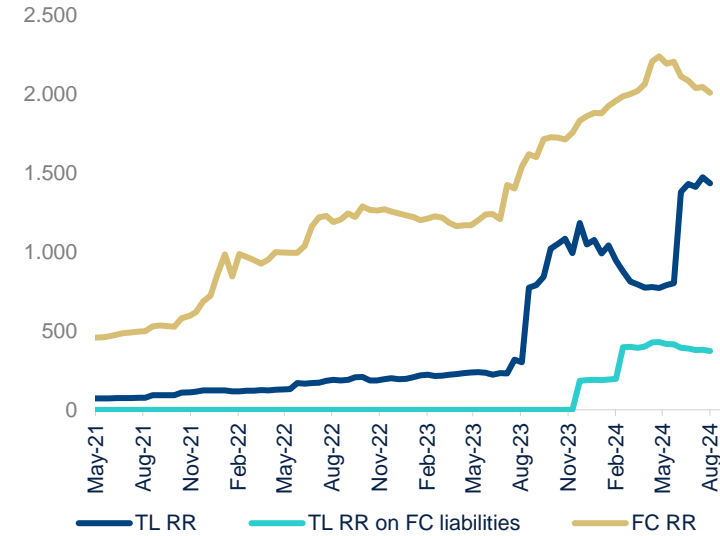


\* excludes corporate overdraft account rates and corporate credit card rates.

\*\* excludes other consumer overdraft account rates.

### RESERVE REQUIREMENT VOLUME

mn TL



# FC interest rate spreads become favorable with declining deposit rates and some normalization in credit rates.

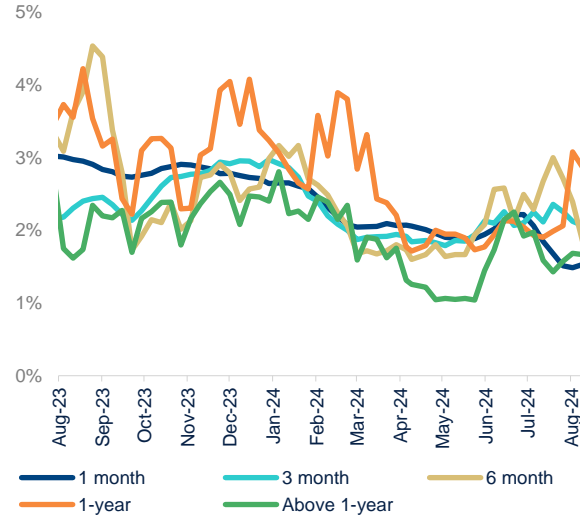
## EURO DEPOSIT RATES

%, 4-week avg flow, sector



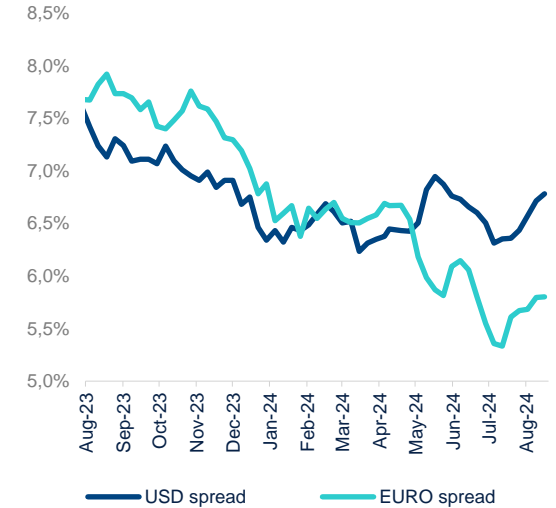
## USD DEPOSIT RATES

%, 4-week avg flow, sector



## FC INTEREST RATE SPREAD

%, 4-week avg flow, sector



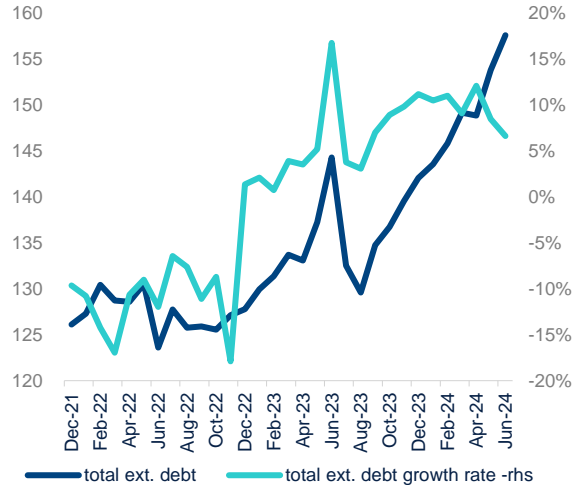


03

# Turkish Banking Sector: External Debt & FC Liquidity

# Banks' external credits continue to increase with also increasing roll-over ratios.

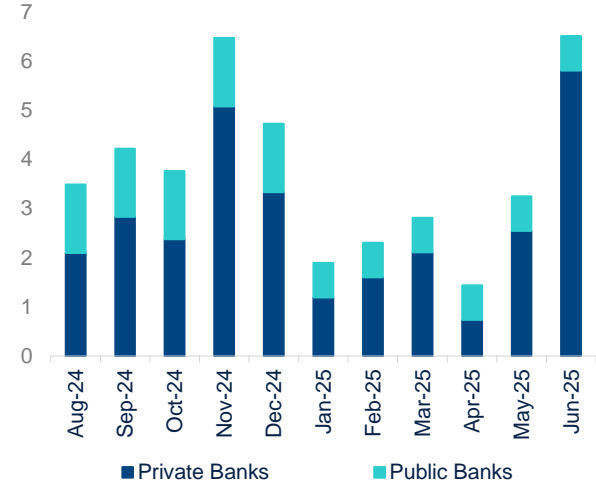
**BANKS' EXTERNAL DEBT**  
BN USD & Y/Y GROWTH



**BANKS' EXTERNAL CREDITS ROLL-OVER RATIO, 12M Rolling, %**



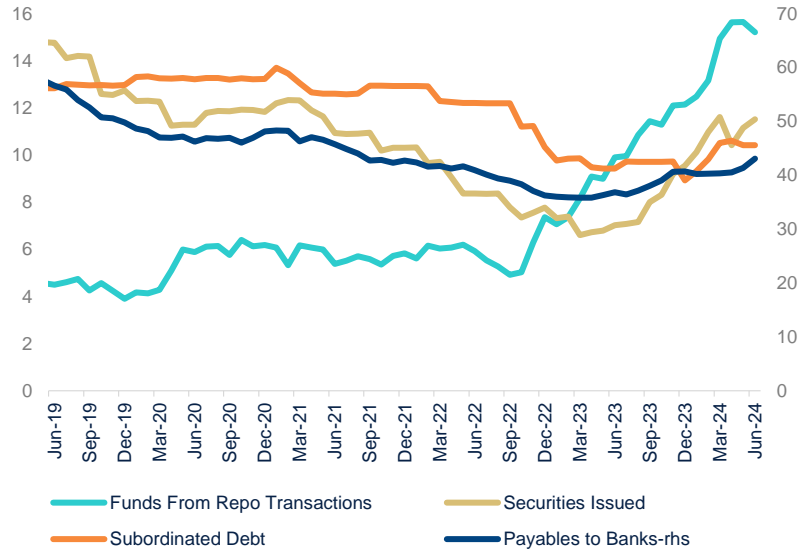
**BANKS' EXTERNAL CREDIT REDEMPTIONS**  
BN USD



# FX debt composition of banks became more diversified with increased Eurobond issuances and subordinated debts.

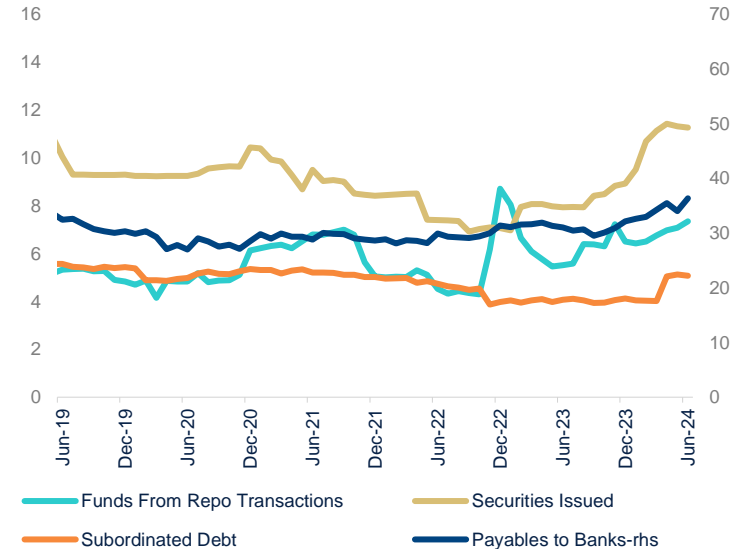
## FX WHOLESALE LIABILITIES

BN USD, Private Banks



## FX WHOLESALE LIABILITIES

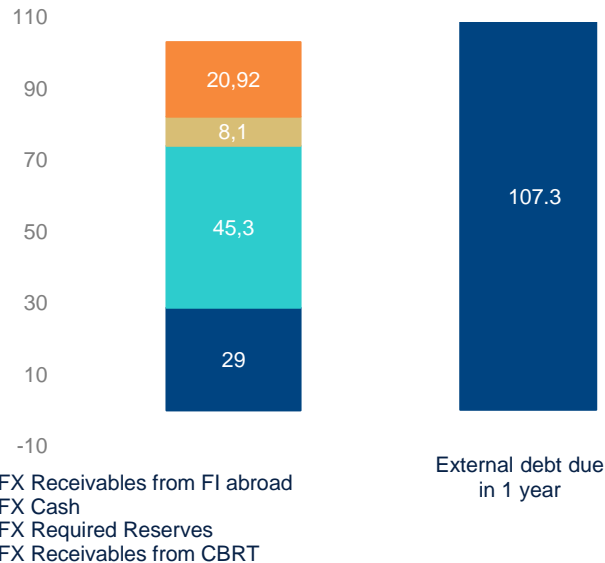
BN USD, Public Banks



# Due to increase in external borrowing of banks, their short-term FX external debt has increased however FX liquid assets are enough to cover ST debt.

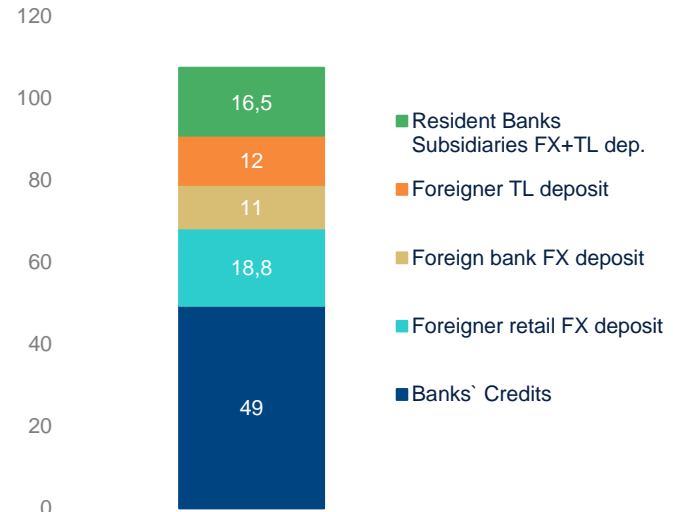
## SELECTED FX LIQUID ASSETS\* OF BANKS

bn USD, June 2024



## BANKS' EXTERNAL DEBT DUE ONE YEAR

bn USD, June 2024



\*Due to public data restriction, FX receivables from Financial Inst. is shown as total (free accounts and blocked accounts). Ext.debt refers to the latest data of June'24.

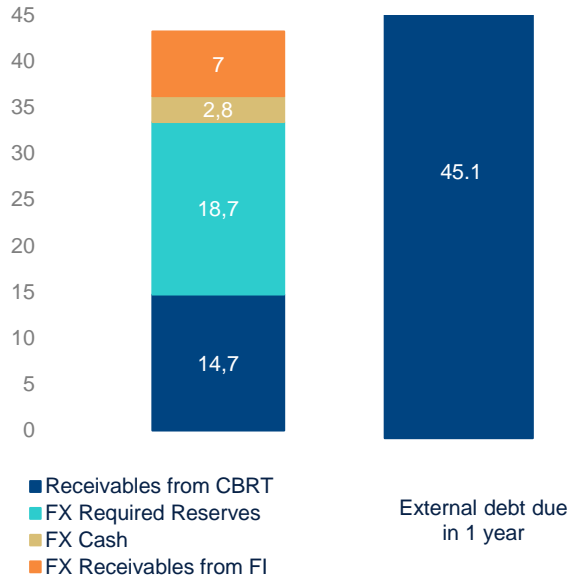
See: <http://www.tcmbblog.org/wps/wcm/connect/blog/en/main+menu/analyses/the+turkish+banking+systems+fx+liquidity+shield>

Source: CBRT, BRSA and Garanti BBVA Research

## Both public and private banks' FX liquidity buffers remain solid.

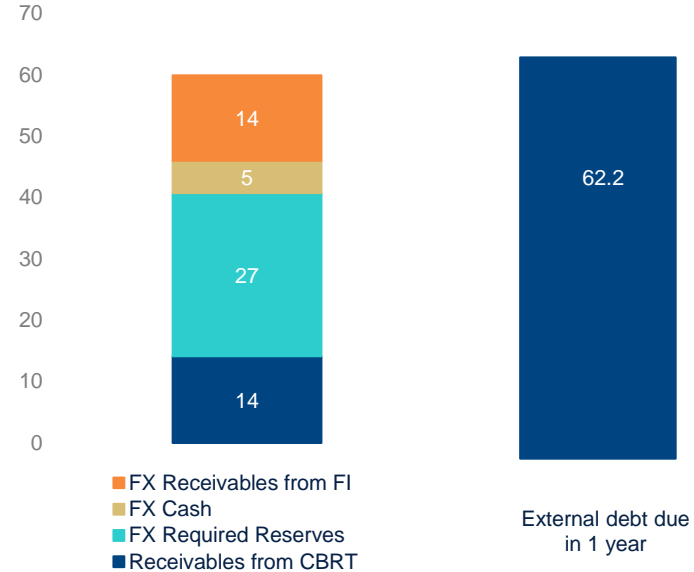
### FX LIQUID ASSETS\* OF PUBLIC BANKS

bn USD, June 24



### FX LIQUID ASSETS\* OF PRIVATE BANKS

bn USD, June 24

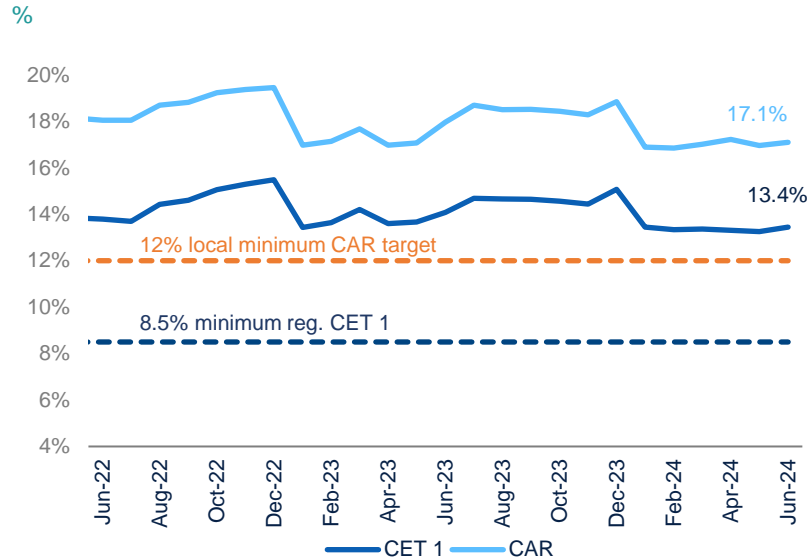


04

# Turkish Banking Sector: Solvency and Capital Adequacy

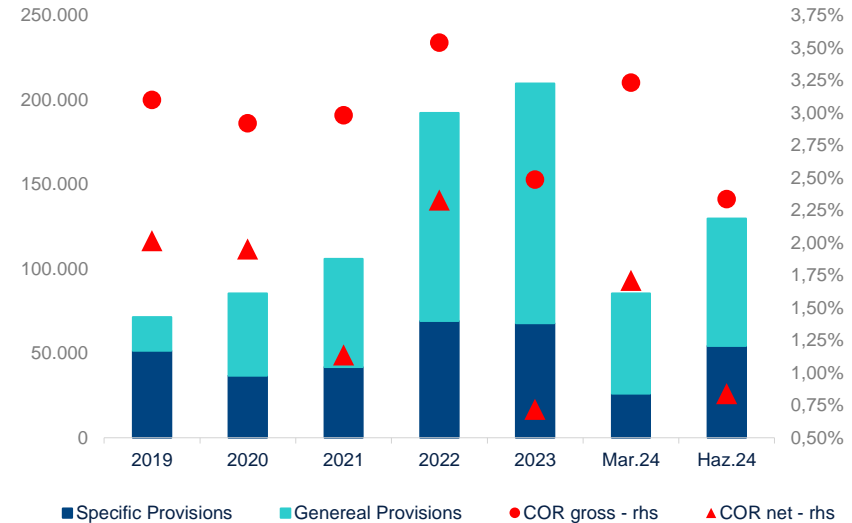
# Capital ratios of the sector maintain their levels above the regulatory threshold. The BRSA's forbearance measures regarding CAR calculations remain implemented (around 1-1.5pp positive impact on CAR in Jun24).

## CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO\*



## COST OF RISK (COR)\*\*

LOAN LOSS PROVISIONS / AVERAGE NET LOANS



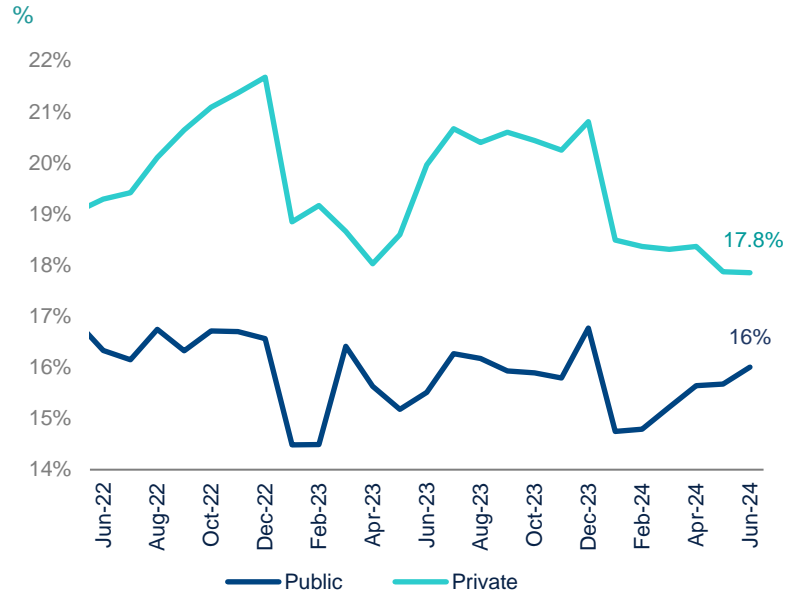
On 31 July 2023, BRSA raised the risk weights for general-purpose loans, personal credit cards and vehicle loans. On August 2023, BRSA decided to increase the risk weight for housing loans to owners of at least one house from 35% to 150%. Due to higher risk weights applied to retail and commercial loans in recent years, items subject to a risk weight of 150% and 200% have increased.

\* Common Equity Tier 1

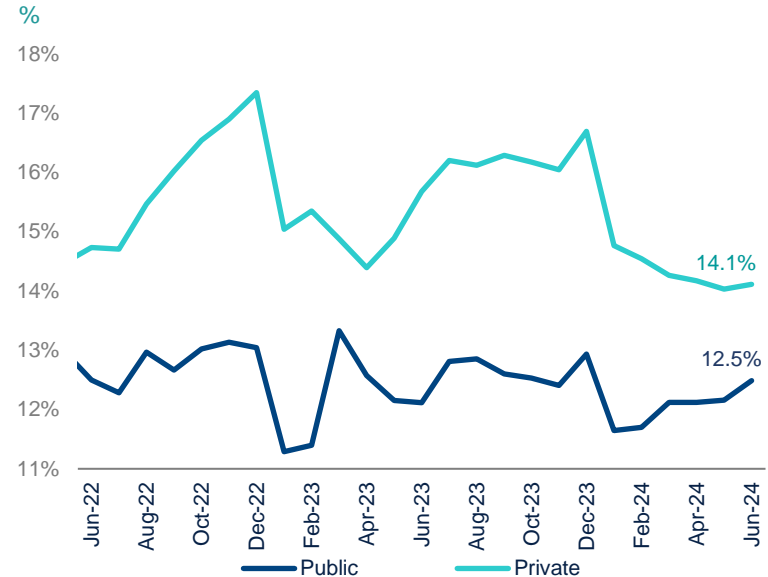
\*\* Deposit banks, net cost of risk refers to the loan loss provisions excluding foreign currency effects and expected loss reversals

**Increase in risk weighted assets of private banks caused a decline in their CAR ratio whereas the increase in regulatory capital of public banks was much higher in public banks btw 1Q24 and 2Q24 due to their higher profit levels.**

**CAPITAL ADEQUACY RATIO: PUBLIC AND PRIVATE BANKS**



**CET 1\* RATIO BY PUBLIC AND PRIVATE BANKS**



\* Common Equity Tier 1

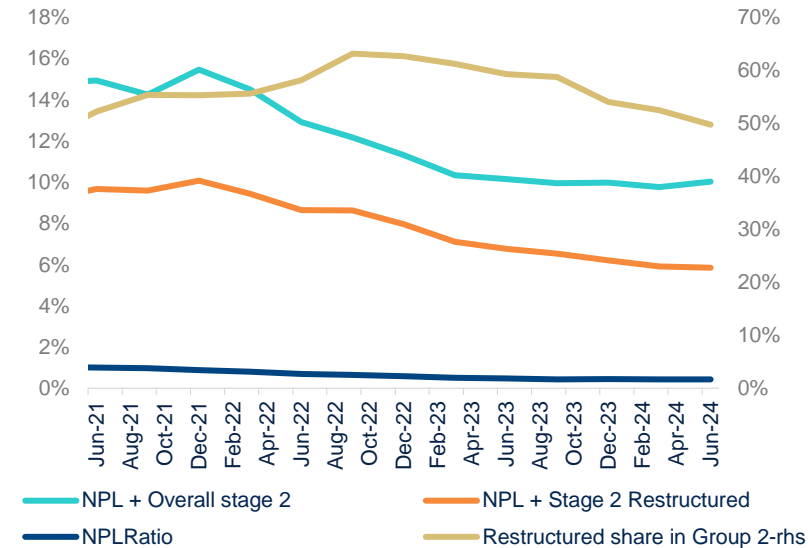


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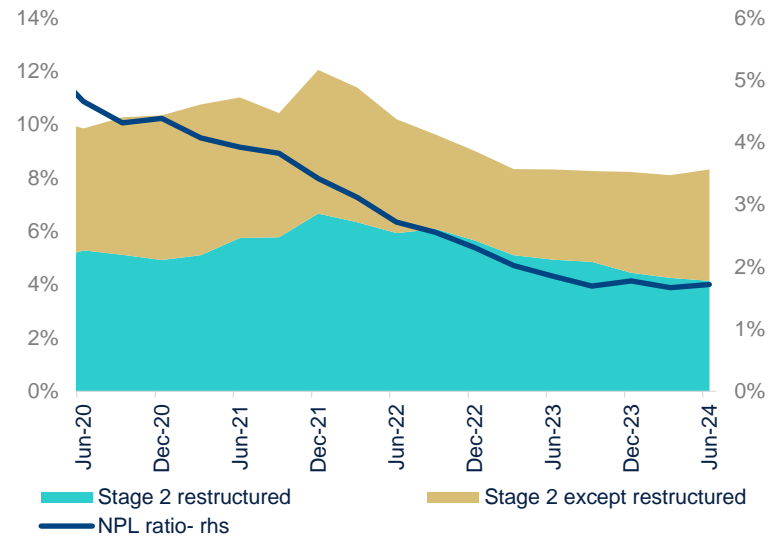
# Turkish Banking Sector: Asset Quality

The share of restructured loans to gross loans in peer deposit banks remained almost stable at 4.1% between 1Q24 and 2Q24. The share of the sum of Stage 2 and NPLs\* rose from 9.8% to 10% in the same period.

### ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS\*\*



### STAGE 2 LOANS / TOTAL GROSS LOANS: EXCEPT RESTRUCTURED & RESTRUCTURED, %



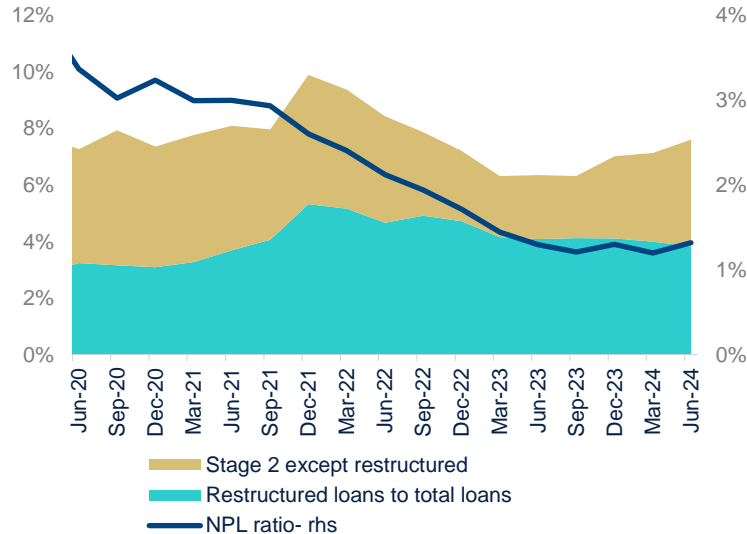
\* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk. Of restructured loans, 91% are monitored under Stage 2; 8% are monitored under NPL and a limited portion under the Stage 1 group (CBRT Financial Stability Report Nov23).

\*\* All indicators are proportioned to gross loans. Data includes 7 top peer deposit banks as 4 private and 3 public banks.

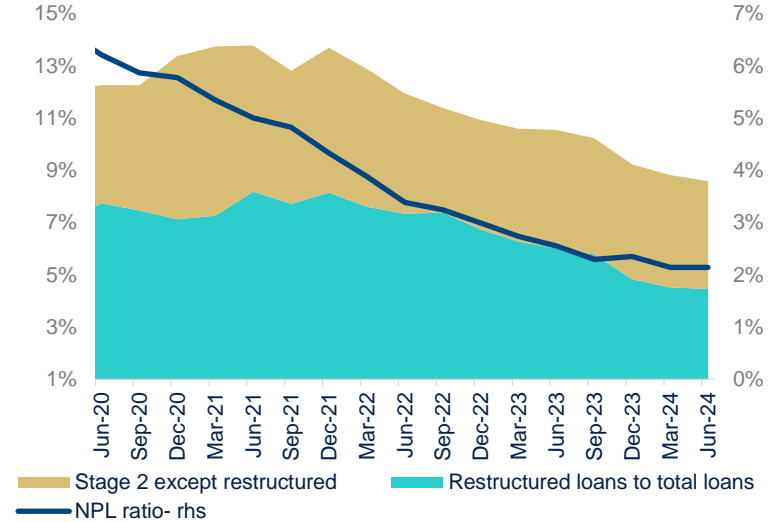
Source: KAP (Public Disclosure Platform), Garanti BBVA Research

The ratio of Stage 2 and NPLs remained at 11.3% for private peers. It continued to rise in public peers from 8.4% to 9%. Overall stage 2 loans accelerated in public banks whereas restructured loans rose more in private banks.

RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS:  
PUBLIC DEPOSIT BANKS

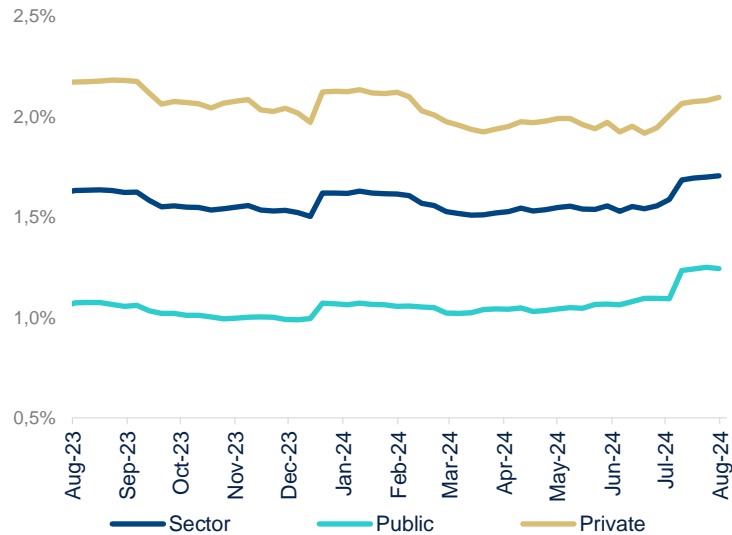


RATIO OF STAGE 2 LOANS & RESTRUCTURED LOANS:  
PRIVATE DEPOSIT BANKS

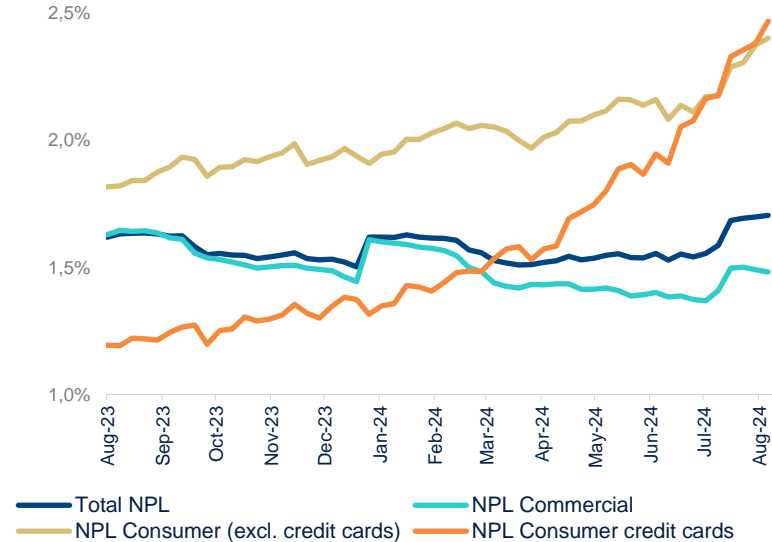


## Although still being historically low, some deterioration started to become visible in NPL ratios of the retail segment.

### NPL RATIO %



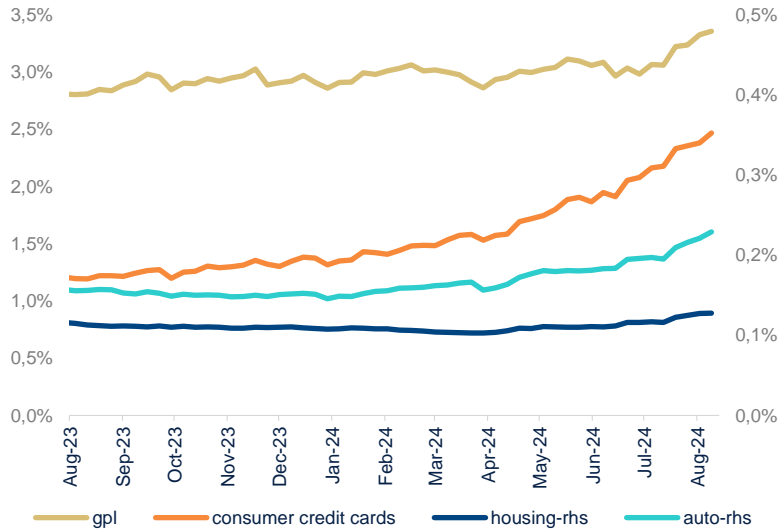
### NPL IN SUB-SEGMENTS %



# NPL ratios of general purpose loans and credit cards gained pace in 2Q24. NPL ratios in SME credits are moving upward too.

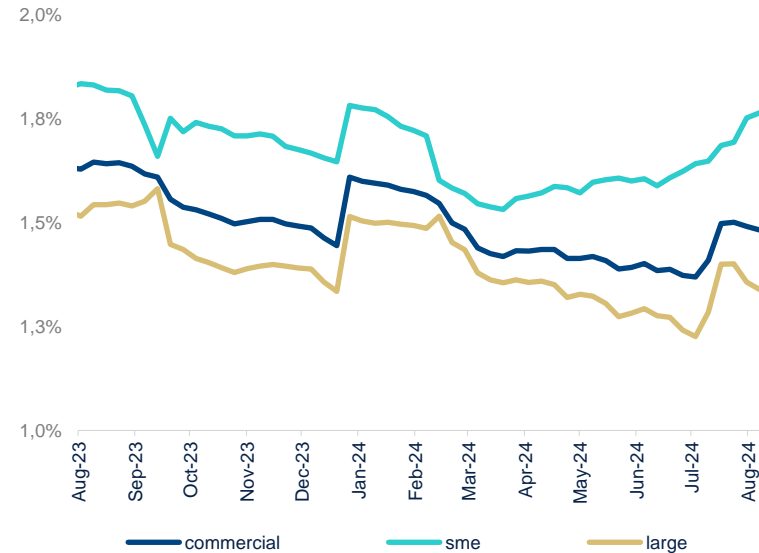
## NPL IN CONSUMER LOANS

%



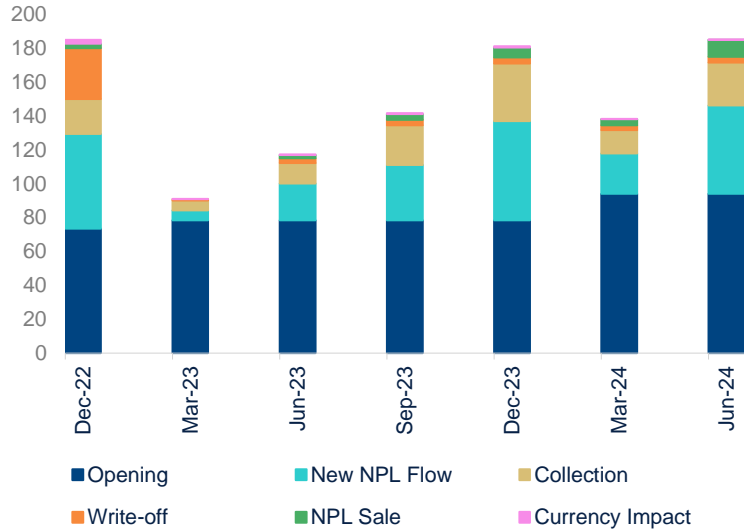
## NPL IN COMMERCIAL LOANS SUBSEGMENTS

%

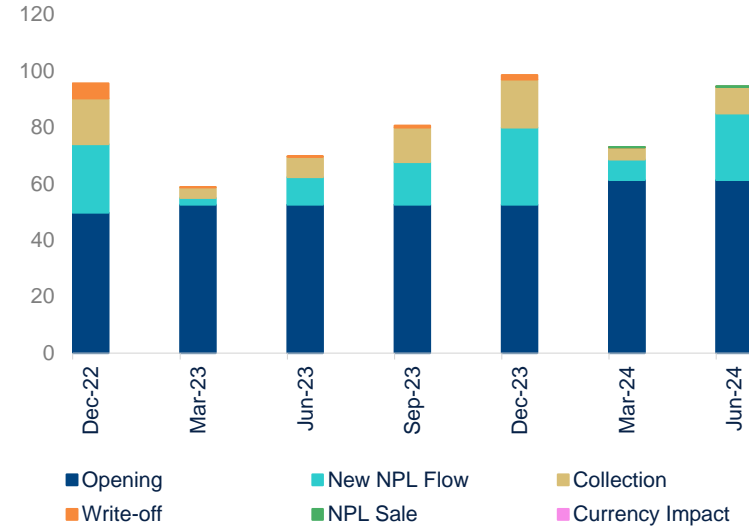


# New NPL formation picked up in the second quarter. Yet, collections still continue, containing a sharp deterioration.

## NPL MOVEMENTS PEER PRIVATE BANKS\* BN TL



## NPL MOVEMENTS PEER PUBLIC BANKS\* %

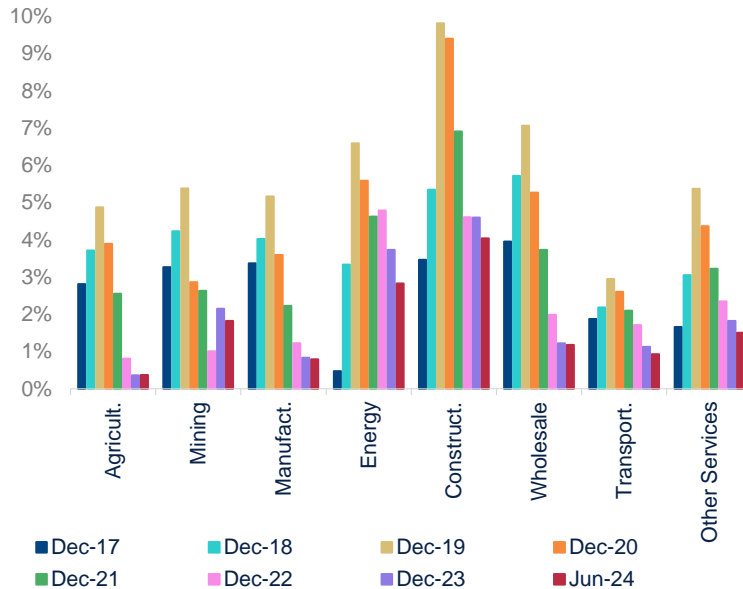


\* Data includes 7 top peer deposit banks as 4 private and 3 public banks.

Among sectors, construction continues to lead in terms of NPL ratio. Among manufacturing subsegments, textile and leather take the lead. However, ratios are low compared to previous years.

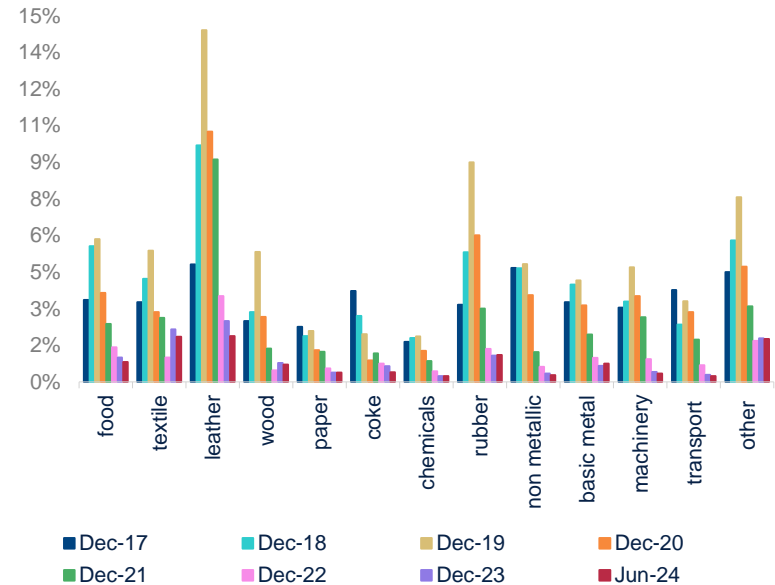
### SECTORIAL NPL RATIO

%



### SECTORIAL NPL RATIO: MANUFACTURING SUBSEGMENTS

%



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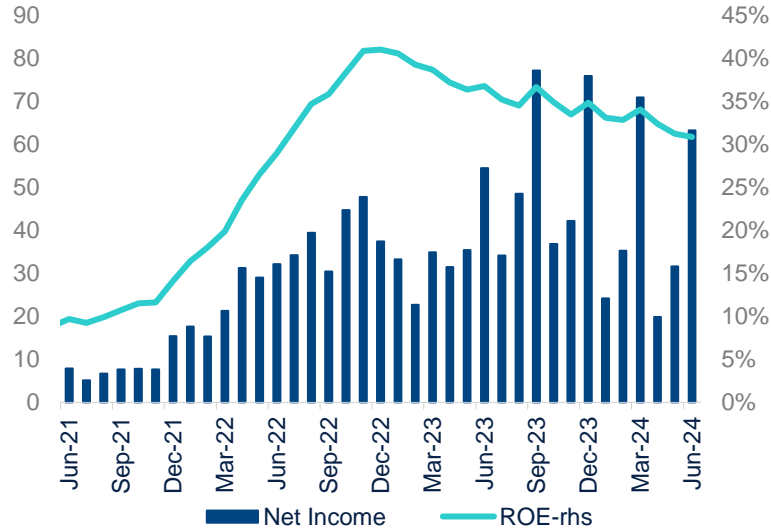
## Turkish Banking Sector: Profitability



**Deposit banks' net income in 2Q24 increased by 15% on annual basis compared to 43% of 1Q24. The ROE has been following a downward trend since the end of 2022.**

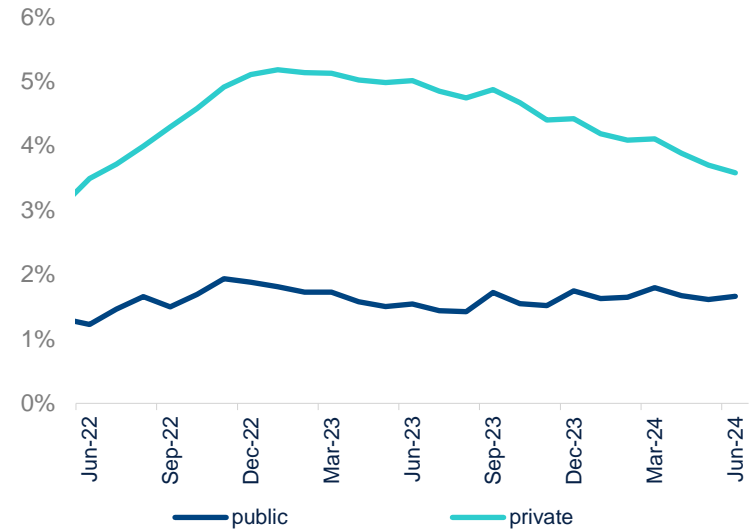
### NET INCOME & RETURN ON EQUITY (ROE)

bn TL monthly, % 12M cumulative



### RETURN ON ASSETS (ROA)

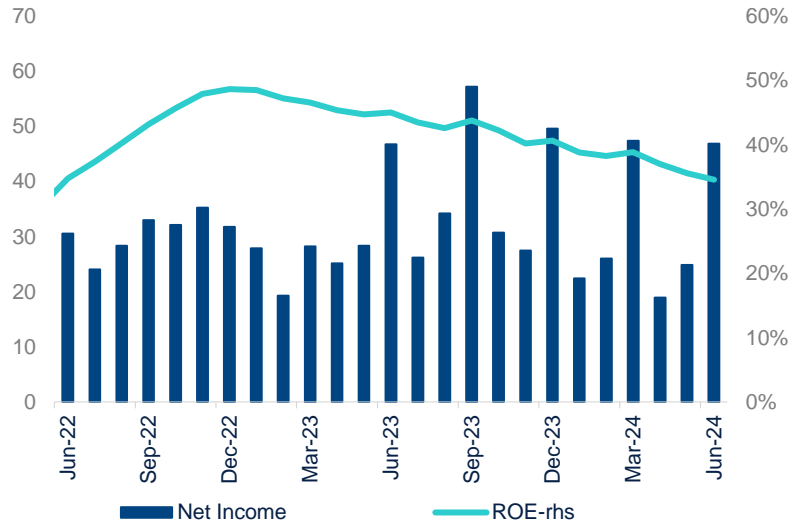
%12M cumulative



# Net income levels recovered themselves in Jun24 from the very low levels seen in Apr24 and May24.

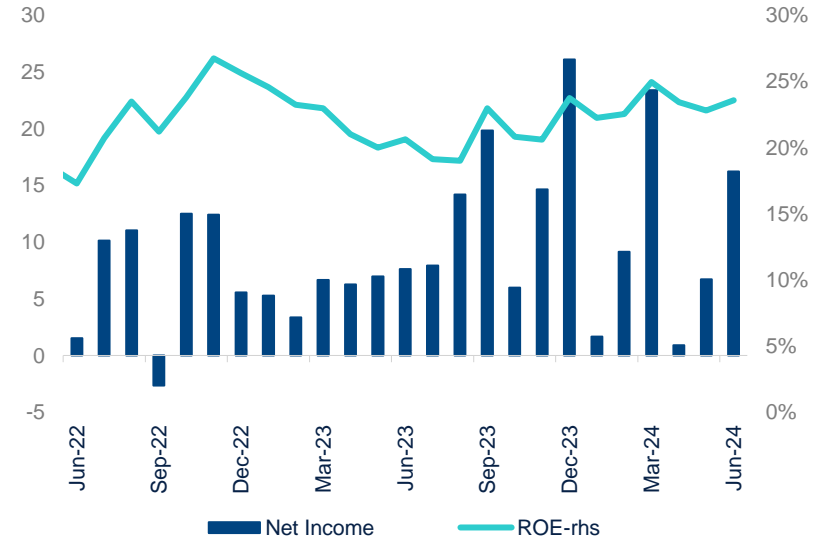
## PRIVATE DEPOSIT BANKS: NET INCOME & ROE

bn TL monthly, % 12M cumulative



## PUBLIC DEPOSIT BANKS: NET INCOME & ROE

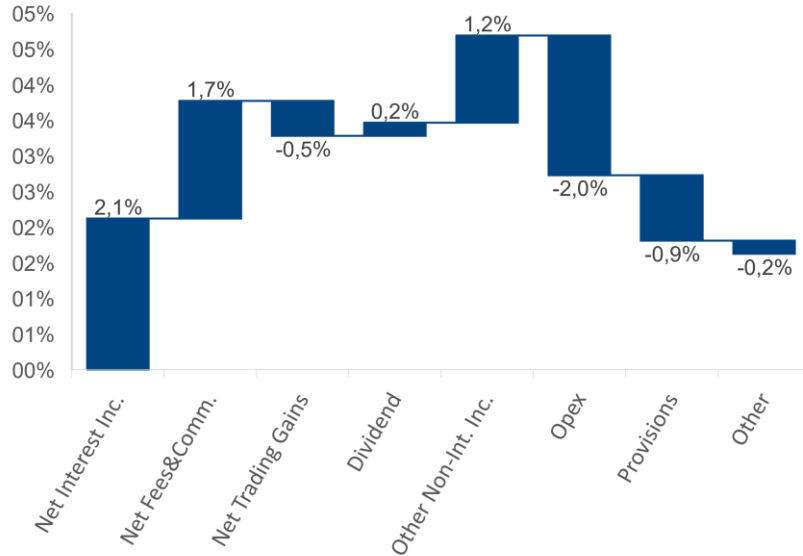
bn TL monthly, % 12M cumulative



# Profits from fees & commissions continued to support private banks' profitability in 2Q24 compare to negative trading gains and increased opex.

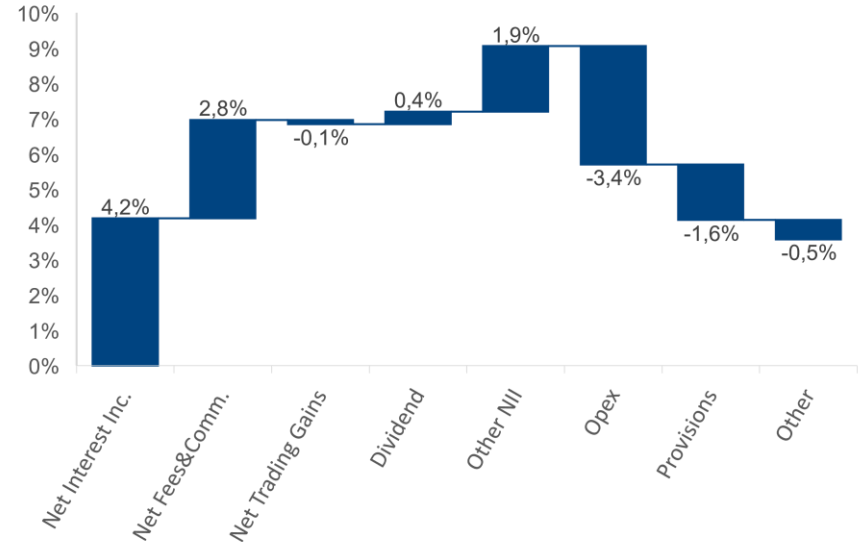
## COMPONENTS ON RETURN ON ASSETS, 2Q24

Private deposit banks, %



## COMPONENTS ON RETURN ON ASSETS, 12M CUMULATIVE

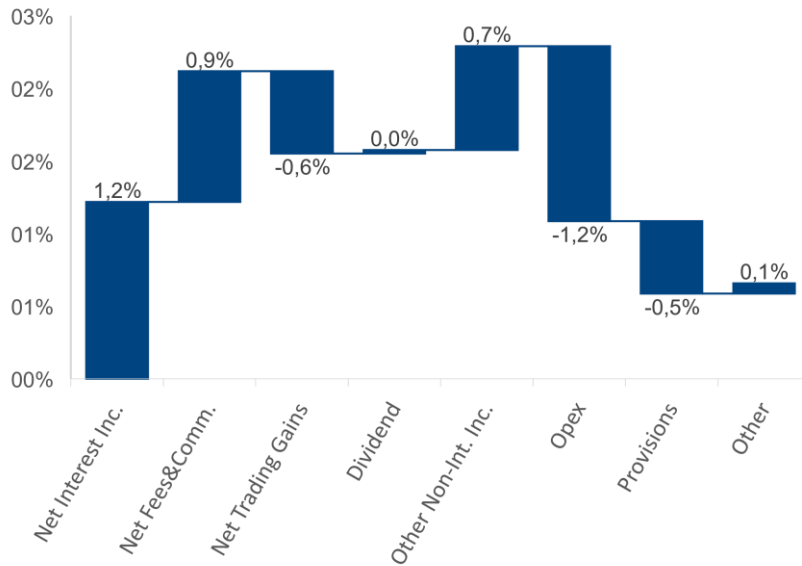
Private deposit banks, %



# Profits from fees & commissions continued to support private banks' profitability in 2Q24 compared to negative trading gains and increased opex.

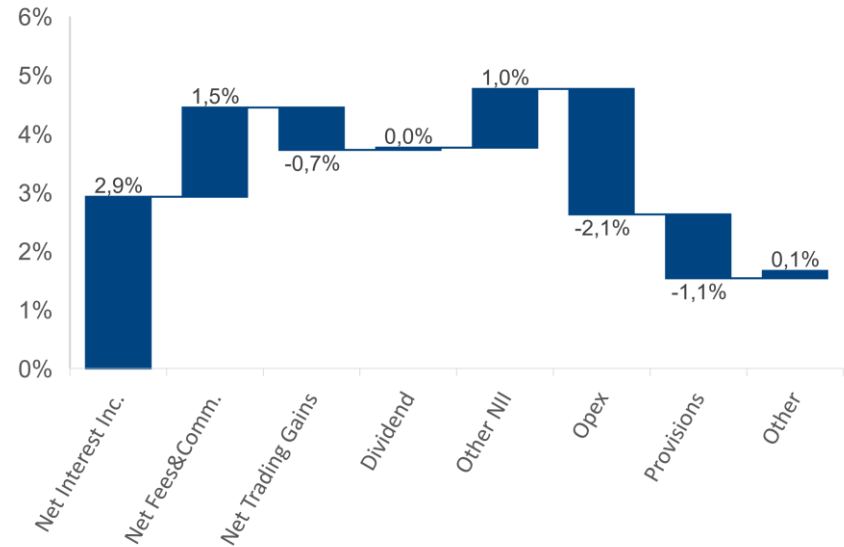
## COMPONENTS ON RETURN ON ASSETS, 2Q24

Public deposit banks, %



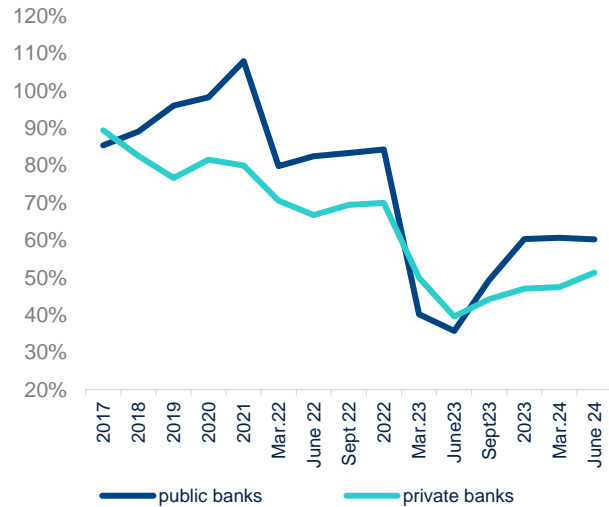
## COMPONENTS ON RETURN ON ASSETS, 12M CUMULATIVE

Public deposit banks, %

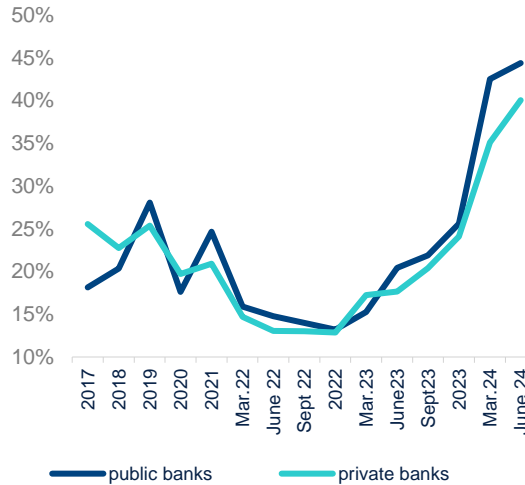


# Trading & FX gains normalized in the sector compared to the high base of 2023.

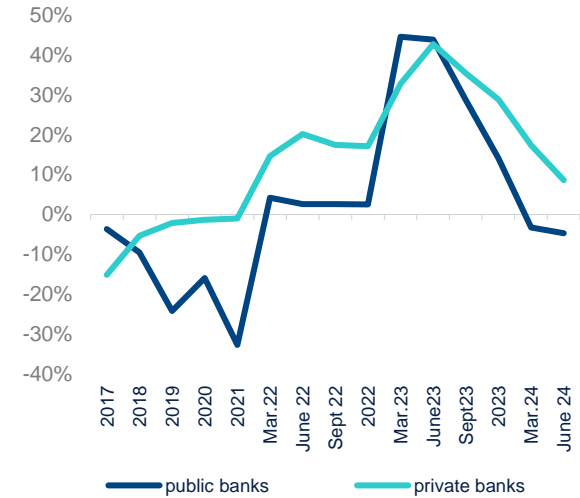
## NET INTEREST REVENUE / TOTAL REVENUE, %



## FEES & COMMISSION REVENUE / TOTAL REVENUE, %



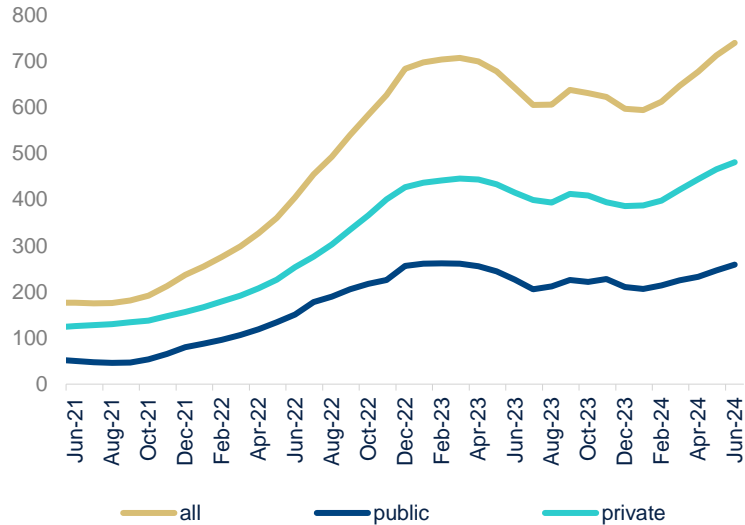
## TRADING & FX GAINS / TOTAL REVENUE %



# The components of net interest income reveals further narrowing of loan-deposit spreads due to the impact of higher funding costs.

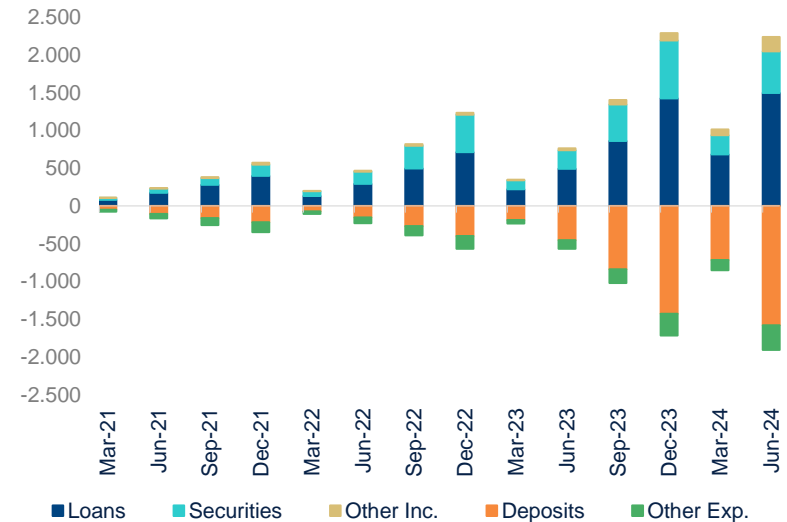
## NET INTEREST INCOME

12M cumulative, bn TL



## COMPONENTS OF NET INTEREST INCOME

12M cumulative, bn TL



\* Other Income refers to interest income coming from money market transactions, securities and repo transactions.

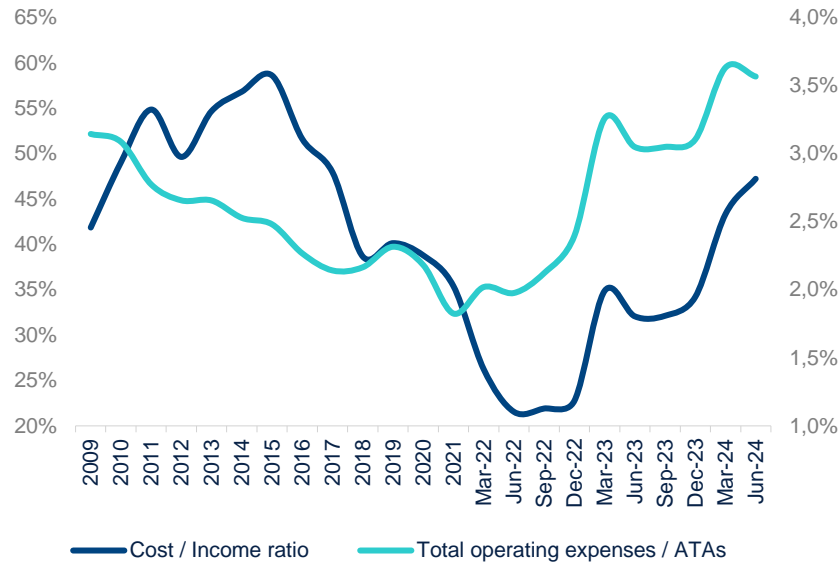
\* Other Expenditures refers to interest expense coming from money market transactions, securities and repo transactions

07

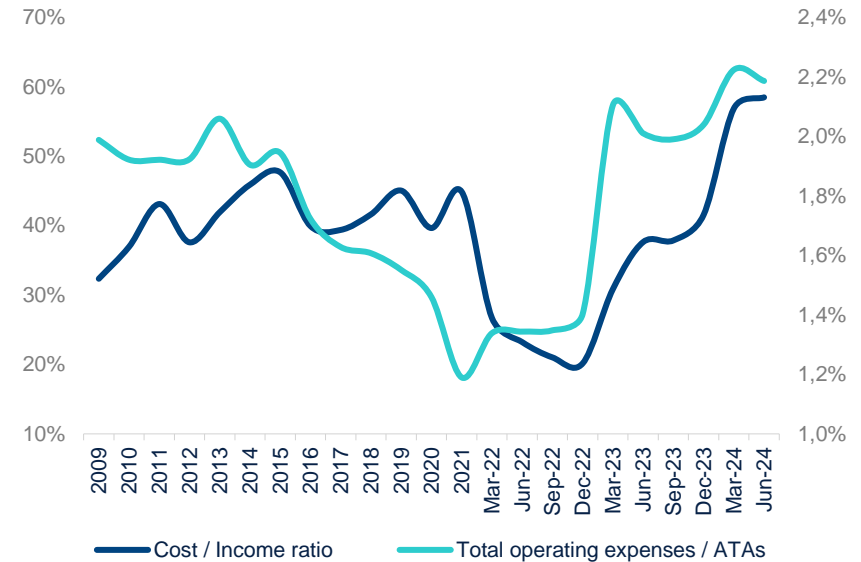
# Turkish Banking Sector: Efficiency

# Cost to income ratios rose in 2Q24 in private banks more than in public banks due to the higher increase in public banks revenues.

## COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS - PRIVATE BANKS



## COST TO INCOME RATIO & TOTAL OPERATING EXPENSES / AVERAGE ASSETS - PUBLIC BANKS





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# Türkiye: Banking Sector Outlook 2Q 2024

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